

# TERMS OF REFERENCE

## Sectoral Study on Cost of Doing Business in NI

### 1. Introduction

1.1 The Department of Finance (DoF) has commissioned Ulster University Economic Policy Centre (UUEPC) to carry out a sectoral study on the Cost of Doing Business in Northern Ireland (NI). It is to cover a broad range of factors including the impacts of the recent Budget announcements around additional employer National Insurance Contributions (NICs) and increases to the national minimum and living wages, as well as other contributing factors such as insurance, property and energy costs and the disparities in tax regimes, such as VAT, between the UK and Ireland.

### 2. Strategic Context and Background

2.1 There are many factors that make up the cost of doing business in NI. These can vary depending on the sector a business operates in and its size. Previous research<sup>1</sup> has shown that large contributing factors include the cost of labour (including social security contributions such as Employer NICs); energy; property (including rates); and transport.

2.2 According to ONS statistics<sup>2</sup>, input costs for producers in the UK rose sharply from the beginning of 2021 until the first half of 2023 before stabilising and at times turning negative. This is aligned with findings from Ulster Bank's Purchasing Managers Index for NI which showed there were sustained rises in input prices across its observed sectors over the same period.

2.3 Whilst input costs are appearing to stabilise, the recent announcements by the Chancellor at the Autumn Budget 2024<sup>3</sup> has brought renewed attention on the cost burden faced by businesses. This includes an increase to the rate of Employer NICs by 1.2 percentage points to 15%. In addition, the threshold at which employers start paying NICs will be reduced from £9,100 to £5,000 per year<sup>4</sup>. This is somewhat offset, particularly for smaller businesses, with the Employment Allowance increasing from £5,000 to £10,500. These will come into effect from April 2025.

2.4 The National Living Wage (for those aged 21 and above) will also be increasing to £12.21 per hour for all eligible employees. The National Minimum Wage (for those of at least school

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<sup>1</sup> <https://www.economy-ni.gov.uk/publications/cost-doing-business-northern-ireland>

<sup>2</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/latest>

<sup>3</sup> <https://www.gov.uk/government/publications/autumn-budget-2024>

<sup>4</sup> <https://www.gov.uk/government/publications/changes-to-the-class-1-national-insurance-contributions-secondary-threshold-the-secondary-class-1-national-insurance-contributions-rate-and-the-empl/changes-to-the-class-1-national-insurance-contributions-secondary-threshold-the-secondary-class-1-national-insurance-contributions-rate-and-the-empl>

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leaving age) will also increase<sup>5</sup>. Increasing minimum wages improves economic, social and personal wellbeing for workers, and reduces inequalities. Whilst there are also benefits for businesses in terms of for example talent attraction and retention, increases in wages can impact on business operational costs.

2.5 In addition, increases in the National Living Wage and/or abolishing sub-minima rates (minimum wage rates that apply to 16-17 year olds and 18-20 year olds) potentially impact NI disproportionately relative to the other UK regions. This is because NI has a higher proportion of workers with wages at or below the National Living Wage, a larger share of jobs at the National Living Wage, and NI makes use of sub-minima rates at a higher rate than the other UK regions.

### 3. Aims and Objectives

- 3.1 This research aims to better understand evolving business costs in NI. Its objectives are to:
- I. Understand the implications on business costs of changes in Employer NICs and National Living/Minimum Wage by sector and business size, including the voluntary and community sector. This should set out some examples of the impact of changes for a range of employee scenarios typical within those sectors most likely impacted (to include variations on full-time/part-time; wage levels; employee size);
  - II. Consider impact of other contributing business costs causing most distress such as insurance, energy and purchasing/renting property by sector and size as well as impacts in disparities of tax regimes; and
  - III. Identify sectors and business sizes most vulnerable in NI from analysis undertaken at I and II;
  - IV. Draw out differentiation with GB and RoI on cost of doing business for range of costs above given different sectoral employment structures; and
  - V. Consult with a range of sector bodies most likely to be impacted by the anticipated changes.
- 3.2 UUEPC will consult/engage with appropriate experts on taxation where appropriate.

### 4. Sources and Consultations

- 4.1 A range of official sources should be used to carry out this research including NISRA's Annual Survey of Hours and Earnings; Annual Business Inquiry; and Inter-Departmental Business Register.
- 4.2 A series of sectoral and business representative body consultations will be conducted to inform the research. Consultees can also have the opportunity to write in to share their views

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<sup>5</sup> <https://www.gov.uk/national-minimum-wage-rates>

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for consideration by the research team to [economicpolicycentre@ulster.ac.uk](mailto:economicpolicycentre@ulster.ac.uk) with 'Cost of Doing Business' in the subject title.

### **5. Timing and Deliverables**

5.1 A final report should be delivered to DoF by the end of March 2025.